

State of Missouri
Office of Secretary of State

Case No. AP-05-39

IN THE MATTER OF:

COREFUNDS, INC.;
ROBERT W. RAPP; and
JAN M. SKOLA;

Respondents.

Serve COREFUNDS, INC. and ROBERT W. RAPP at:
2907 Sunnybrook Court
Jefferson City, Missouri 65109

Serve JAN M. SKOLA at:
346 E. Cross Fox Trail
Camdenton, Missouri 65020

**ORDER TO CEASE AND DESIST AND ORDER TO SHOW
CAUSE WHY CIVIL PENALTIES AND COSTS SHOULD NOT
BE IMPOSED**

On the 20th day of October 2005, the Enforcement Section of the Securities Division, by and through Mary S. Hosmer, Assistant Commissioner, submitted a petition, requesting a cease and desist order and other administrative relief. After reviewing the petition, the Commissioner issues the following findings of fact, conclusions of law and order:

I. FINDINGS OF FACT

Summary

CoreFunds, Inc. is a corporation that was engaged in offering high-speed, dial-up Internet services through Corefunds Online an Internet Service Provider. Respondents raised approximately \$240,000 through investments in the form of Royalty Agreements in CoreFunds, Inc. from at least 17 investors. In December 2004, Rapp withdrew \$50,000 of the invested funds in a "60-day loan"; Rapp has repaid only \$10,000 of this loan. Respondents failed to disclose, among other things, that the securities and the individuals were not registered and that Skola, the secretary of Corefunds had a prior felony conviction.

Respondents

1. CoreFunds, Inc. ("CoreFunds"), is a Nevada corporation purportedly engaged in offering high-speed, dial-up Internet services through Corefunds Online an Internet Service Provider ("CF-ISP"). CoreFunds has an address of 2907 Sunnybrook Court, Jefferson City, Missouri 65109.

2. Robert W. Rapp is the President of CoreFunds and has an address of 2907 Sunnybrook Court, Jefferson City, Missouri 65109.
3. Jan M. Skola, at all times relevant to this order, was the Secretary of CoreFunds and has an address of 346 E. Cross Fox Trail, Camdenton, Missouri 65020.
4. Douglas Brummett, at all times relevant to this order, purported to be a marketing director for CoreFunds and has an address of 2327 A North Belt Hwy, St. Joseph, MO 64506.
5. As used in this Cease and Desist Order, the term "Respondents" refers to CoreFunds, Rapp, and Skola.

Skola's Felony Conviction and FDIC Order

6. In September 1994, Skola was convicted of the felony of making false entries to books and records of an institution insured by the Federal Deposit Insurance Corporation ("FDIC"). In October 1994, Skola was sentenced to federal prison.
7. On February 15, 1995, the FDIC issued an Order of Prohibition against Skola. This Order stated, among other things, that:
 - a. Skola had engaged in unsafe or unsound banking practices;
 - b. As a result of Skola's actions the Bank had suffered or would probably suffer financial loss;
 - c. Such practices involved personal dishonesty on the part of Skola; and
 - d. Skola was prohibited from participating in the affairs of any financial institution or working for, or in, any financial institution.
8. In September 2004, Brummett spoke to a Missouri resident ("MR") and told MR, among other things, the following:
 - a. Brummett was a marketing director for CoreFunds and worked with Rapp;
 - b. CoreFunds was a corporation offering high-speed, dial-up Internet services through CF-ISP;
 - c. CoreFunds enrolled charitable organizations to use CF-ISP. The charitable organization would then receive a \$3 monthly donation for each person the organization signed up for CF-ISP;
 - d. Brummett was also selling Royalty Agreements in CoreFunds to investors for a minimum of \$5,000. The Royalty Agreements entitled the investor to own a percentage of CoreFunds;
 - e. MR would receive a return on an investment in the Royalty Agreement around April 2005.

Brummett did not disclose information to MR about Skola's felony conviction, Order

of Prohibition and the *Royalty Agreement* did not contain this information.

9. On October 15, 2004, Brummett gave MR, a document entitled *Royalty Agreement*. The *Royalty Agreement* stated, among other things, that: "The undersigned hereby summits [sic] the sum of \$5,000.00 into the Corefunds [sic] Royalty Participation Plan." MR signed this agreement.
10. On October 26, 2004, MR mailed Rapp a check for \$5,000 made payable to CoreFunds.
11. Around October 1, 2004, a Colorado resident ("CR") learned about CoreFunds through a friend. CR contacted Rapp who told CR, among other things, the following:
 - a. CoreFunds was going to provide a high-speed Internet service to charitable organizations;
 - b. The charitable organizations would get \$3.00 a month for each subscriber they signed up to use CF-ISP;
 - c. Rapp and his business associates were not going to take any money for services they provided until the CoreFunds started making a profit;
 - d. Rapp was an attorney; and
 - e. Rapp was going to take the company public.
12. CR was told CR would receive a return on this investment.
13. Rapp failed to disclose to CR information about Skola, including the material fact that:
 - a. Skola had a prior felony conviction;
 - b. Skola had served time in federal prison on this conviction;
 - c. Skola had received an Order of Prohibition from the FDIC.
14. On October 13, 2004, Rapp faxed CR a document entitled, *Royalty Agreement* that CR signed and returned to Rapp with a check made payable to CoreFunds for \$10,000 dated October 13, 2004.

Investigation

15. In March 2005, the Missouri Securities Division received information that indicated that the Respondents offered securities in CoreFunds in the State of Missouri.
16. A check of the records maintained by the Missouri Commissioner of Securities confirmed no registration, granted exemption or notice filing indicating status as a "federal covered security" for any of the securities offered by the Respondents in the State of Missouri.
17. On March 4 and April 5, 2005, the Division sent letters of inquiry to counsel for

Skola that requested a claim of exemption from registration or exception from definition upon which Respondents relied in offering unregistered securities or any claim that the securities were federal covered securities. The letters also requested additional information about the offers to Missouri residents and advised Respondent that failure to respond within a reasonable time as set by the Commissioner constituted proper grounds for the entry of an order suspending the right to offer and sell securities in the State of Missouri.

18. On April 1, 2005, and April 15, 2005, the Division received responses from counsel for Skola that stated, in part, that:
 - a. Skola did not offer or sell unregistered securities in CoreFunds in Missouri.
 - b. Skola was the secretary of CoreFunds and only signed stock certificates. Skola's other duties for CoreFunds involved being a salesman for the ISP.
19. In the April 15, 2005 response, Skola's counsel provided an e-mail message that Skola had received from Rapp dated August 19, 2004. This August 2004 e-mail had a subject heading of "cash" and provided profit projections for the company and for the investors. The first projection showed the profits to be derived from charging \$17.95 for high-speed Internet access. The second provided profits derived from charging \$19.95 for this access. In each of these projections the Royalty holders were projected to make 75 cents and the company would make between five and seven dollars.
20. On March 5, April 5, May 18 and June 27, 2005, the Division sent letters of inquiry to counsel for Rapp that requested, among other things, the following: a claim of exemption from registration or exception from definition upon which Respondents relied in offering unregistered securities or any claim that the securities were federal covered securities. The letters also requested additional information about the offers to Missouri residents and advised Respondent that failure to respond within a reasonable time as set by the Commissioner constituted proper grounds for the entry of an order suspending the right to offer and sell securities in the State of Missouri.
21. The May 18 and June 27, 2005 letters from the Division stated that Respondents solicited and sold an investment contract in the form of Royalty Agreements in CoreFunds. An investment contract is defined as an investment in a common enterprise with the expectation of profits to be derived primarily from the efforts of a person other than the investor.
22. On April 1, April 14, May 31, June 8, and July 18, 2005, the Division received responses from counsel for Rapp that stated, in part,
 - a. ".if the transactions involving the Royalty Agreements are considered a security, they would be exempt from registration under Section 409.2-202(14). No sales, marketing persons, or volunteers were involved in the offering or sale of the Royalty Agreements";
 - b. Rapp was not aware that Skola had a felony conviction; that Skola had served time in federal prison; or that Skola had entered into a Consent Agreement with the FDIC;
 - c. Rapp used the \$50,000 from the "60-day loan" from the CoreFunds bank

account for personal reasons;

- d. As of July 19, 2005, Rapp had repaid \$10,000 of the December 2004, "60-day loan" Rapp took from the CoreFunds bank account;
 - e. "When Mr. Brummett worked for Corefunds, Inc. [sic], his job responsibilities included contacting not-for-profit corporations, educating them as to the services offered by Corefunds, Inc. [sic], enlisting the not-for-profit organization's participation in the Corefunds [sic] Online program";
 - f. CoreFunds had 17 investors, 14 of whom were Missouri residents;
 - g. On June 24, 2005, Skola resigned as the secretary of CoreFunds; and
 - h. Skola surrendered his shares of stock on June 23, 2005.
23. On April 4, 2005, a representative with the Division telephoned Brummett, who stated, among other things, the following:
- a. Brummett raised money for Rapp;
 - b. Brummett's services had been voluntary; and
 - c. Brummett had received \$17,000 from Rapp, \$15,000 of this amount was a bonus.
24. On April 15, 2005, the Securities Division sent a letter of inquiry to Brummett that requested a claim of exemption from registration or exception from definition upon which Respondent relied in offering unregistered securities or any claim that the securities were federal covered securities. The letter also requested additional information about the offers to Missouri residents and advised Respondent that failure to respond within a reasonable time as set by the Commissioner constituted proper grounds for the entry of an order suspending the right to offer and sell securities in the State of Missouri.
25. On July 13, 2005, Brummett responded to the Division's letter and stated, among other things, that:
- a. Brummett did not sell securities in any state;
 - b. Brummett was not an agent;
 - c. Brummett did not sell securities or investments for CoreFunds;
 - d. Brummett did not receive a commission; and
 - e. Brummett received a small salary for marketing the CF-ISP.
26. An investigator with the Securities Division reviewed CoreFunds bank records. These records indicate that:
- a. Rapp received a total of \$87,900 from September 2004, through June 24, 2005

- in "consulting fees";
- b. Skola received \$15,000 in "consulting fees";
 - c. Brummett received \$23,800 in "consulting fees";
 - d. One additional consultant received \$11,590 in "consulting fees";
 - e. Rapp, Skola, Brummett and the additional consultant received at least \$138,000 or approximately 57% of the \$240,000 invested in CoreFunds; and
 - f. Most of the funds received by CoreFunds came from investors. CoreFunds had very few subscribers to its ISP. Payments to the charitable organizations totaled under \$250, which indicates that CF-ISP had fewer than 100 subscribers.
27. On December 12, 2004, Rapp withdrew \$50,000 noting, "60 day loan" on the withdrawal check. This loan and the consulting fees equaled approximately \$188,000 or 78% of the \$240,000 invested in CoreFunds. As of July 2005, Rapp had repaid \$10,000 of the \$50,000 loan to CoreFunds.
28. Respondents are required to prove the applicability of the claimed exemption. The exemption cited by Respondents requires that no commission or other remuneration is paid or given to a person for soliciting a purchaser. Respondents failed to prove that this exemption was applicable for the following reasons:
- a. CoreFunds had very few subscribers to the ISP. Most of the funds into CoreFunds were from investors not from CF-ISP business activities;
 - b. Although Brummett stated that he was "volunteering" his services he solicited most of the investors and stated he raised funds for Rapp. In addition, Brummett received "consulting fees" and a bonus for his "volunteer" work;
 - c. Rapp also solicited at least one investor and received large amounts of money from CoreFunds in the form of consulting fees and loans; and
 - d. Respondents and Brummet received approximately 78% of the funds raised from the offering as consulting fees, loans and/or bonuses. Many of these consulting fees were paid from the bank account within days after an investor's funds were deposited into the account.
29. No known investors have received any return on their CoreFunds investments.
30. An investigation by the Securities Division revealed that there were 17 investors. Most of these investors spoke with Brummet prior to their investments. These investments offered by Respondents were investment contracts for the following reasons:
- a. The participants invested money to purchase these Royalty Agreements;
 - b. The money was invested in a common enterprise. The fortunes of the investors were interwoven with other investors who were to share 75 cents from every sale of the ISP and the promoters who were to make \$5-\$7 from these sales.

- c. The investors were told and expected to make a profit from the investments in these Royalty Agreements.
 - d. These profits were to have been derived from the significant managerial efforts of the promoters of CoreFunds, through its activities to promote the ISP.
 - e. The investors only effort was to put forth the money required for the investment. All other significant efforts, both managerial and entrepreneurial, came from the performance of parties other than the investors.
31. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents omitted to state the following material facts:
- a. That Brummett was not registered to sell securities in the State of Missouri;
 - b. The securities offered and sold by Respondents were not registered in the State of Missouri;
 - c. That Skola had a felony conviction;
 - d. That Skola had served time in federal prison;
 - e. That the FDIC had issued an order of prohibition against Skola; and
 - f. That over 70 % of the money raised would be used for consulting fees and loans.
32. In connection with the offer, sale or purchase of a security to Missouri residents, Respondents made untrue statements of material fact to CR that Rapp was an attorney, when, in fact, this is not true.
33. This Order is in the public interest.

II. CONCLUSIONS OF LAW

A. STATUTORY PROVISIONS

- 1. §409.6-601(a), RSMo Supp. 2004, reads in part as follows: "This act shall be administered by the commissioner of securities who shall be appointed by and under the direction of the secretary of state"
- 2. §409.1-102(26), RSMo Supp. 2004, defines "offer to sell" as "every attempt or offer to dispose of, or solicitation of an offer to purchase, a security or interest in a security for value."
- 3. §409.1-102(28), RSMo Supp. 2004, defines a "security" to include an investment contract.
- 4. §409.3-301, RSMo Supp. 2004, provides that it is unlawful for any person to offer or sell any security in this state unless (1) the security is a federal covered security; (2) the security, transaction, or offer is exempted from registration under sections 409.2-201 to 409.2-203; or (3) the security is registered under this act.

5. §409.4-402, RSMo Supp. 2004, provides, in part, that §409.4-402, RSMo Supp. 2004, provides, in part, that it is unlawful for an issuer engaged in offering or selling securities in this state, to employ an agent who transacts business in this state unless the agent is registered or exempt from registration.
6. §409.5-501, RSMo Supp. 2004, provides that it is unlawful for a person, in connection with the offer, sale or purchase of any security, directly or indirectly; (1) to employ a device, scheme, or artifice to defraud, (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading or (3) to engage in an act, practice or course of business that operates or would operate as a fraud or deceit upon another person.
7. §409.5-503, RSMo Supp. 2004, provides that the person claiming an exemption, exception, preemption or exclusion has the burden of proving its applicability.
8. §409.6-604(a) RSMo Supp. 2004, provides:

If the commissioner determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act or that a person has materially aided, is materially aiding, or is about to materially aid an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act, the commissioner may:

1. Issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with this act;
 2. Issue an order denying, suspending, revoking, or conditioning the exemptions for a broker-dealer under section 409.4-401(b)(1)(D) or (F) or an investment advisor under section 409.4-403(b)(1)(C); or
 3. Issue an order under section 409.2-204.
9. §409.6-604(d), RSMo Supp. 2004, provides:

In a final order, the commissioner may impose a civil penalty up to one thousand dollars for a single violation or up to ten thousand dollars for more than one violation.

10. §409.6-604(e), RSMo Supp. 2004, provides:

In a final order, the commissioner may charge the actual cost of an investigation or proceeding for a violation of this act or a rule adopted or order issued under this act. These funds may be paid into the investor education and protection fund.

B. STATUTORY VIOLATIONS

Count I: Offering and Selling Unregistered, Nonexempt Securities

1. Respondents violated §409.3-301, RSMo Supp. 2004, when they offered a security as described in the above facts without the security being (1) a federal covered security, (2) exempt from registration under §§409.2-201 or 409.2-202, or (3) registered under the Missouri Securities Act.

Count II: Employing an Unregistered Agent

2. Respondents violated § 409.4-402(d), RSMo Supp. 2004, when they employed an unregistered agent in the state of Missouri as described above.

Count III: Omitting to State Material Facts in Connection with the Offer or Sale of a Security

3. Respondents violated § 409.5-501(2), RSMo Supp. 2004, when, in connection with the offer and or sale of a security, Respondents omitted to state the following material information:
 - a. That Brummett was not registered to sell securities in the State of Missouri;
 - b. The securities offered and sold by Respondents were not registered in the State of Missouri;
 - c. That Skola had a felony conviction;
 - d. That Skola had served time in federal prison;
 - e. That the FDIC had issued an order of prohibition against Skola; and
 - f. That over 70% of the money raised would be used for consulting fees and loans.

Count IV: Making Untrue Statements of Material Facts in Connection with the Offer or Sale of a Security

4. Respondent Rapp violated §409.5-501(2), RSMo Supp. 2004, when, in connection with the offer and or sale of a security, Respondent Rapp made the untrue statements of material fact to CR that Rapp was an attorney, when, in fact, this is not true.

ORDER

NOW, THEREFORE, it is hereby ordered that Respondents, their agents, employees and servants, and all other persons participating in or about to participate in the above-described violations with knowledge of this order are prohibited from:

- A. Violating or materially aiding in the violation of §409.3-301, RSMo Supp. 2004, by offering or selling any security that is not registered, unless the security is a federal covered security or has an effective exemption from registration.

- B. Violating or materially aiding in the violation of §409.4-402(d), RSMo Supp. 2004, by employing an unregistered agent; and
- C. Violating or materially aiding in the violation of §409.5-501(2), RSMo Supp. 2004, by omitting to state a material fact and or making untrue statements of material fact in connection with the offer and sale of the securities as described above.

IT IS FURTHER ORDERED that, pursuant to § 409.6-604(d), the Commissioner will grant the Enforcement Division's petition for an imposition of a civil penalty of ten thousand dollars (\$10,000) against each Respondent, in a final order unless Respondents requests a hearing and shows cause why the penalty should not be imposed.

IT IS FURTHER ORDERED that, pursuant to § 409.6-604(e), the Commissioner will grant the Enforcement Section's petition and charge Respondents, jointly and severally, the costs of the investigation in this matter. The Commissioner will charge Respondents an amount to be determined after review of evidence submitted by the Enforcement Section, unless Respondents request a hearing and shows cause why he should not be charged such costs.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY,
MISSOURI THIS 27TH DAY OF OCTOBER, 2005.

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
DAVID B. COSGROVE
COMMISSIONER OF SECURITIES